



1968  
ANNUAL  
REPORT

For the year ended  
March 31st, 1968

*Silverwood Dairies, Limited*



This Silverwood's oval in the familiar script is now found on most Silverwood packages, on our delivery vehicles, and throughout our advertising.



Silverwood's

# Silverwood Dairies, Limited

## 1968 Annual Report

for the year ended March 31, 1968

The sixty-fifth year of our Canadian- owned company.

Of our 4972 shareholders 98.3% reside in Canada  
and own 99.3% of the total stock.

HEAD OFFICE - 75 BATHURST STREET, LONDON, ONTARIO

### Contents

	page
Financial Highlights .....	4
Officers, Directors .....	5
Map of Silverwood Operations .....	6 & 7
Letter to Shareholders .....	8 to 11
Consolidated Balance Sheet .....	12 & 13
Statement of Consolidated Income .....	14
Statement of Consolidated Retained Earnings .....	15
Auditors' Report .....	15
Notes to Consolidated Financial Statements .....	16 & 17
Statement of Source and Application of Funds .....	17
Ten Year Comparative Summary .....	18 & 19
Silverwood's Dairy Products .....	20 & 21
Silverwood Features .....	22 & 23





## financial highlights *for the year ended March 31*

	1968	% ON SALES	1967	% ON SALES
SALES	\$99,805,847	100.0	\$90,790,724	100.0
NET PROFIT PER CLASS "A" AND CLASS "B" SHARE ISSUED AT MARCH 31	\$ 2,023,326 \$1.51	2.0	\$ 1,731,052 \$1.29	1.9
DIVIDENDS PAID RATE PER CLASS "A" AND CLASS "B" SHARE	\$ 1,075,495 \$ .80	1.1	\$ 1,070,570 \$ .80	1.2
EARNINGS RETAINED IN BUSINESS FOR YEAR	\$ 947,831	.9	\$ 660,482	.7
EARNINGS RE-INVESTED IN BUSINESS TO DATE	\$11,823,927		\$10,886,371	
SHARES OUTSTANDING CLASS "A" CLASS "B"	903,158 441,212		903,153 441,212	
BONDS AND DEBENTURES OUTSTANDING	\$ 9,600,000		\$10,000,000	
DEPRECIATION	\$ 2,250,869		\$ 2,048,584	
WORKING CAPITAL	\$ 7,683,550		\$ 7,700,429	





## **DIRECTORS** (Reading left to right by columns)

**L. R. GRAY**  
Secretary-Treasurer  
London

**T. L. DAVIES**  
President  
London

**F. W. P. JONES**  
Professor,  
Business Administration  
University of  
Western Ontario  
London

**E. B. NELLES**  
Formerly Managing Director  
London

**G. M. CARLYLE**  
President  
United Dairies Ltd.  
Calgary, Alberta

**N. E. KAYE**  
Vice President  
Dairy Operations  
London

**J. H. GILLIES**  
Chairman of the  
Board and Chief  
Executive Officer  
London

**E. G. SILVERWOOD**  
Honorary Chairman of the Board  
London

**E. A. PAULGER**  
Formerly of Paulger's  
Blantyre Dairy Ltd.  
Toronto

**A. E. LAWRENCE, SR.**  
Vice President  
Moore Smyth Willis Ltd.  
London

**H. T. SPETTIGUE**  
Vice President Production  
London

**J. A. CAULDER**  
Formerly Chairman of the Board  
Silverwood Western Dairies Limited  
Toronto

**J. ALLYN TAYLOR**  
Chairman and President  
Canada Trust-Huron & Erie  
London

**R. G. IVEY, Q.C.**  
Counsel, Ivey & Dowler  
London

---

## **OFFICERS** (as at March 31, 1968)

**E. G. SILVERWOOD**  
Honorary Chairman  
of the Board

**J. H. GILLIES**  
Chairman of the Board  
and Chief Executive  
Officer

**T. L. DAVIES**  
President

**N. E. KAYE**  
Vice President  
Dairy Operations

**H. T. SPETTIGUE**  
Vice President  
Production

**L. R. GRAY**  
Secretary-Treasurer

## **Executive Committee**

**J. H. GILLIES**  
Chairman

**L. R. GRAY**  
Secretary

**T. L. DAVIES**

**N. E. KAYE**

**H. T. SPETTIGUE**

## **Transfer Agent/Registrar**

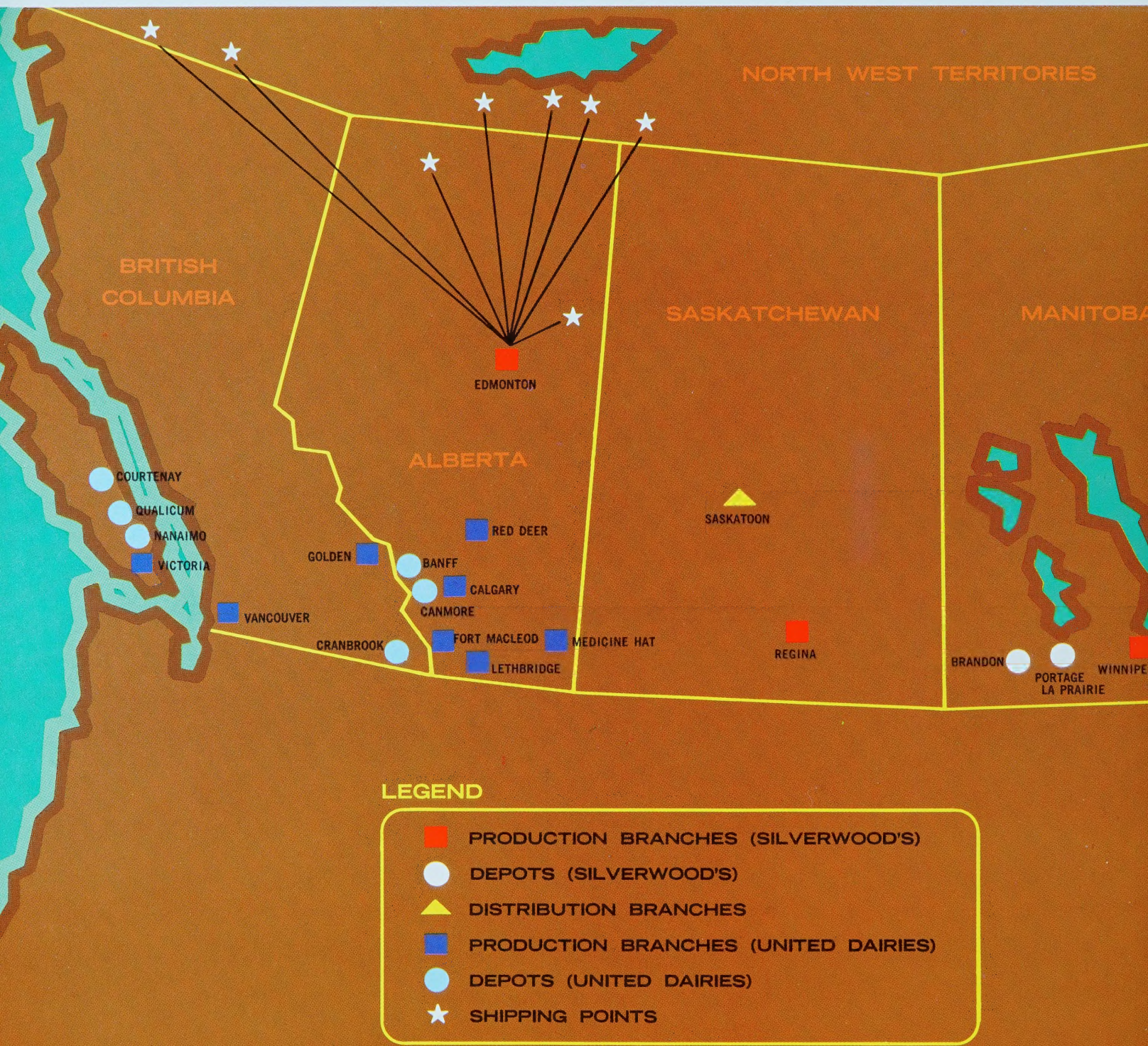
The Canada Trust Company, Toronto, Vancouver and Calgary

## **Auditors**

Clarkson Gordon & Co., Chartered Accountants



# Silverwood Dairies' Widespread Organization











J. H. Gillies  
Chairman of the Board



Trevor L. Davies  
President

## to our shareholders

London, Canada, May 22, 1968

The consolidated financial statements for the year ended March 31, 1968 include Silverwood Dairies, Limited and its subsidiary companies, namely, United Dairies Limited, operating in the Provinces of Alberta and British Columbia, and Uplands Dairy Shops (1967) Limited.

### Sales and Earnings:

Sales continued to climb, amounting to \$99,805,847 (1967 - \$90,790,724), an increase over the previous year of \$9,015,123, being 9.9%.

Consolidated net profit after taxes was \$2,023,326 (1967 - \$1,731,052), an increase over last year of \$292,274. This includes profits on the sale of fixed assets and investments of \$303,716 (1967 - \$63,555).

Net profit per share on the combined Class "A" and "B" shares was \$1.51 (1967 - \$1.29).

Net profit per dollar of sales was 2% (1967 - 1.9%).

The substantial rise in sales can be attributed partly to increases in selling prices, but mainly to the aggressive and expanding efforts of our Marketing Division and by our growing interest in convenience stores.

Profits continued to be adversely affected by constantly mounting costs. In November 1967 a fire which almost completely destroyed our Sarnia dairy plant, necessitating the use of temporary quarters, reduced the earnings of that branch as it has been most difficult and costly to maintain normal operations

and deliveries in that territory. This situation will be corrected when the new depot now under construction is ready for occupancy, which is expected to be in June of this year. The direct fire loss to buildings, equipment and inventory was fully covered by insurance. With exceptionally fine cooperation from employees, business neighbours, and friends, we were able to maintain service to all customers without interruption.

### Working Capital:

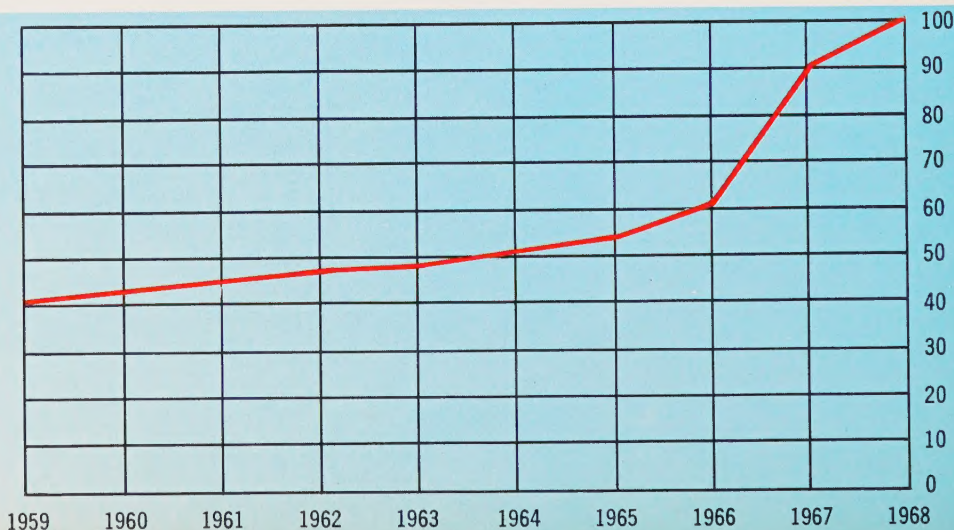
Our working capital at March 31st, 1968 was \$7,683,550 (1967 - \$7,700,429) a decrease of \$16,879.

### Fixed Assets:

The gross book value of capital assets was \$42,055,305 (1967 - \$39,813,377). Accumulated depreciation was \$21,381,401 (1967 - \$20,054,375) being 53.5% of depreciable assets.

Net capital expenditures during the year totalled \$3,165,771 (1967 - \$4,601,419). During the last few years we have pursued a program of modernizing our various operations. To date new plants have been built in Windsor, Toronto (the Norseman and Scarborough dairies) and two in London, one for the processing and bottling of milk and the other for the production and packaging of ice cream. In addition, new depots were erected in Sudbury and Stratford.

SALES  
IN MILLIONS OF DOLLARS







This year the construction of a modern distributing depot was commenced at Brantford, replacing several outdated buildings, and a similar distributing depot in a new location at Sarnia is nearing completion and will replace the building destroyed by fire. At the same time, we have undertaken the expansion of the production and storage facilities at Peterborough and Toronto (Norseman) and to a lesser extent in some of the smaller branches.

#### Dairy Acquisitions:

During the period covered, we purchased some home service routes from Cooksville Dairy Limited, adjacent to Toronto, and the home service and wholesale routes from Hamilton Dairyland Limited in Hamilton, in the Province of Ontario. It is the general policy of the Company to expand its dairy operation in the future by aggressive marketing programs, rather than by the purchase of business.

#### Store Operations:

For the first six months of this fiscal year Uplands Dairy Shops, originally acquired in 1966 as part of Findlay Kemp Dairies Limited, were operated as an integral part of Silverwood Dairies, Limited. As of October 1967 a wholly-owned subsidiary company was incorporated to administer these convenience stores under the name of Uplands Dairy Shops (1967) Limited.

The results of the operations of that company for the period October 1, 1967 to March 31, 1968 are consolidated with the financial statement of the parent Company.

On October 31, 1967, a small group of six convenience stores in London, Ontario, was acquired and merged with the Uplands' organization.

We now operate Uplands stores in Toronto, Hamilton, Brantford and London in the Province of Ontario and stores in Vancouver and Victoria in the Province of British Columbia under the name of "Milky Way Stores" and "Peters Ice Cream Stores".

The principle we have adopted in connection with this division of our business is to lease the properties and purchase the fixtures and equipment.

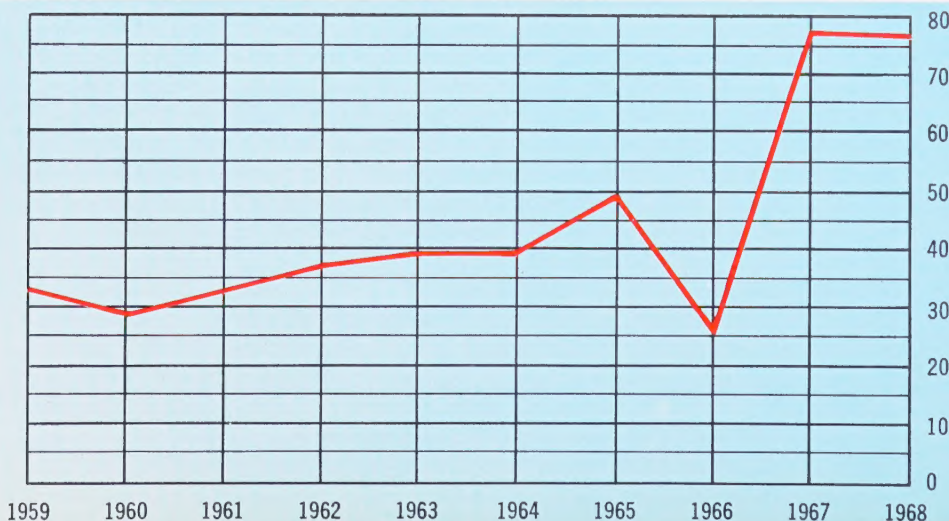
#### Dividends and Retained Earnings:

Dividends totalling 80¢ per share were paid on both the Class "A" and Class "B" stock. Total dividends were \$1,075,495 (1967 - \$1,070,570).

Consolidated retained earnings at March 31, 1968 stood at \$11,823,927 (1967 - \$10,886,371). Your Company distributed 53.2% (1967 - 61.8%) of net earnings as dividends and reinvested 46.8% (1967 - 38.2%) in the business.

A 5½% dividend was paid by our subsidiary, Jersey Farms Limited, to holders of its preference shares who represent a minority interest in that company.

WORKING CAPITAL  
IN HUNDRED THOUSAND DOLLARS





DISPOSITION OF INCOME		
\$70,092,673	Producers, Suppliers, and Other Expenses	69.7%
21,881,808	Wages	21.8%
1,705,805	Employee Benefits	1.7%
2,250,869	Depreciation	2.2%
694,542	Bond Interest	.7%
1,857,000	Income Taxes	1.9%
1,075,495	Dividends	1.1%
947,831	Retained in Business	.9%
100,506,023	Total Income	100.0%

## to our shareholders *(Continued)*

### Bonds and Debentures:

The first annual payment of \$400,000 for the debenture sinking fund requirements is due July 5, 1968. During the year \$330,000 par value of 6% debentures were purchased at a discount for sinking fund purposes. Early in April, 1968 the balance of the requirement was purchased.

### Capital Stock:

Silverwood Dairies, Limited: Only five Class "A" shares were issued during the year. These were in partial exchange for five common shares of United Dairies Limited.

United Dairies Limited: The Silverwood offer to shareholders of United still remains open. Of the 50,000 common shares outstanding, all but 34 are now owned by Silverwood Dairies, Limited.

### Changes in Officers:

On March 31, 1968, Mr. J. Harold Gillies retired as Chairman of the Board and Chief Executive Officer after 49 years of outstanding service. He joined the company in 1919 as accountant and since then has been successively Secretary-Treasurer, Vice President and Treasurer, President and Treasurer, President, President and Chief Executive Officer, and finally Chairman of the Board and Chief Executive Officer. We are sure that all our shareholders will wish to ex-

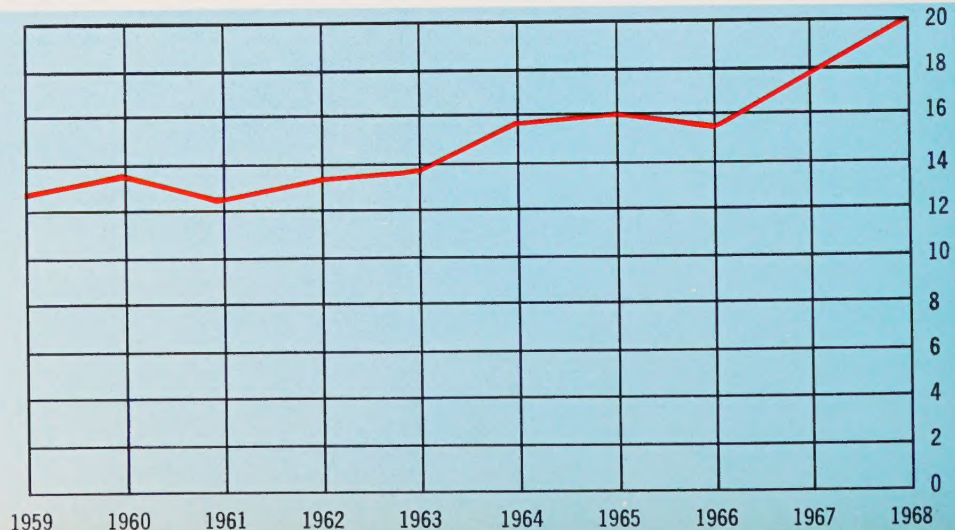
tend their appreciation to him for the fine leadership he has given during a period when the company has grown from an organization selling less than \$1,000,000 a year to one selling almost \$100,000,000 a year. His place as Chairman of the Board will be taken by Mr. F. W. P. Jones who was, until recently, Dean of the School of Business Administration at the University of Western Ontario. He continues as a professor but resigned as Dean in order to devote more time to industry. He is a director of several companies and we welcome him to his new position. Mr. T. L. Davies, President of the Company, will also assume the title and responsibilities of Chief Executive Officer.

### Annual Report Competition:

Our 1967 Annual Report was awarded the Oscar-of-Industry Trophy by the Financial World. This trophy is given to the company whose report is judged best in the United States and Canada in the classification "Food Products with annual sales under \$150,000,000". This is the eighteenth consecutive Silverwood report to receive recognition from the Financial World, and is the highest award we have won.

We also were ranked second in the Canadian competition conducted by The Financial Post of Toronto in the larger classification, "Retailing and Distribution".

NET PROFIT  
AFTER INCOME TAXES  
IN HUNDRED THOUSAND DOLLARS







### The A. E. Silverwood Foundation:

The Foundation, established by the late Mr. A. E. Silverwood, founder of our company, is providing university bursaries for sons and daughters of Silverwood employees as part of its educational, religious and charitable program. These bursaries provide \$2,000.00 each over a four-year period and since inception over 60 beneficiaries have participated therein. This year thirty-four students are in attendance at various Ontario universities as a result of the program.

In addition, four bursaries are presented each year to nurses taking post-graduate work in Nursing Education or Nursing Science Administration.

The balance of the Foundation's annual income is contributed to organizations interested in the treatment of crippled children, mentally retarded children and various types of medical research.

### General:

For the benefit of our shareholders we have arranged with the Canada Trust Company to provide transfer facilities for our shares in the cities of Calgary, Alberta, and Vancouver, British Columbia, in addition to Toronto, Ontario.

### Outlook:

Your company is continually alert for new developments in the production and marketing of dairy and other types of foods. During the coming year it will be necessary to expand the plant used in the aseptic

packaging of fruit juices in order to handle the growing demand for those lines. We have added a Research and Development Department to our organization to be administered by a research chemist. The facilities will be located in London, Ontario, and will concentrate on the investigation of new products. This addition will also enable us to keep abreast of advances in the manufacture and marketing of dairy substitutes.

A policy of branching out into new fields will be aggressively pursued. In that way the growth record of the past few years will be continued and the position of the company as the largest dairy organization in Canada will be maintained.

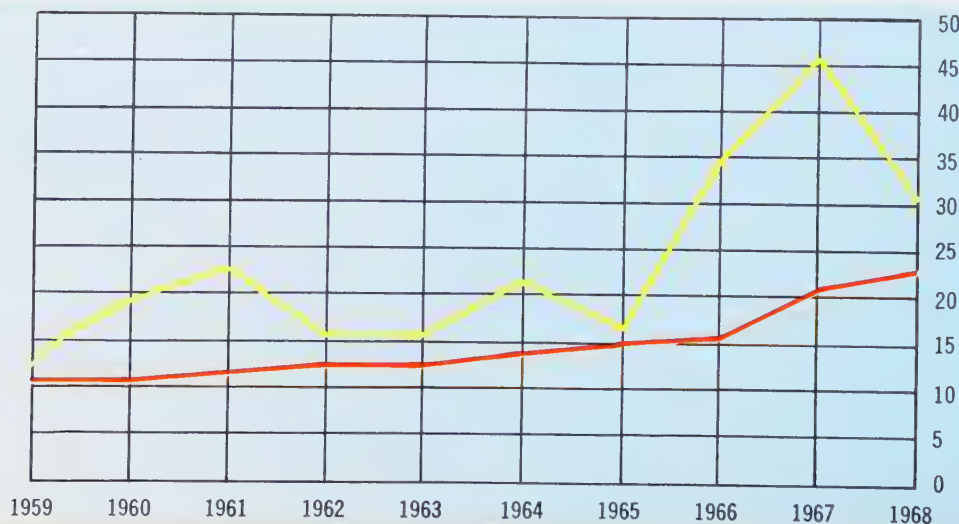
### Appreciation:

The sales volume is at the highest point in its history. This could not have been achieved without the loyal support of our customers and the dedicated service of the 4,000 employees who play a major role in the continuing progress of the company.

Chairman of the Board

President

NET CAPITAL EXPENDITURES  
AND DEPRECIATION  
IN HUNDRED THOUSAND DOLLARS







# consolidated balance sheet - March 31, 1968

SILVERWOOD DAIRIES, LIMITED (Incorporated under the laws of Ontario)  
and its subsidiary companies (with comparative amounts at March 31, 1967)

## assets

	March 31, 1968	March 31, 1967
<b>Current:</b>		
Cash .....	\$ 1,697,754	\$ 1,609,009
Short term deposits with banks .....	1,050,000	250,000
Marketable securities — at cost (market value 1968 — \$2,308,200; 1967 — \$3,476,800) .....	2,526,342	3,540,897
Accounts receivable — Trade accounts (less allowance for doubtful accounts — 1968 - \$257,066; 1967 - \$230,807) .....	5,156,600	4,756,604
Sundry .....	440,282	580,673
Income taxes recoverable .....		340,822
Inventories — at the lower of cost or net realizable value — Dairy products .....	2,316,676	2,076,418
Stores and supplies .....	2,230,028	1,999,989
Prepaid expenses .....	850,022	787,677
	<u>16,267,704</u>	<u>15,942,089</u>
<b>Fixed</b> — substantially at cost:		
Land .....	2,078,461	1,840,358
Buildings .....	10,447,107	9,819,255
Machinery and equipment .....	14,088,546	13,873,336
Merchandising equipment .....	6,607,745	5,861,272
Delivery equipment .....	8,783,446	8,419,156
	<u>42,055,305</u>	<u>39,813,377</u>
Less accumulated depreciation .....	<u>21,381,401</u>	<u>20,054,375</u>
	<u>20,673,904</u>	<u>19,759,002</u>
<b>Sundry:</b>		
5% special refundable tax .....	163,939	170,705
Deferred expenses and sundry assets .....	961,032	925,275
Route lists and goodwill — at cost .....	2,517,399	2,406,896
Expenses in connection with debentures issued, less amortization .....	326,320	344,320
	<u>3,968,690</u>	<u>3,847,196</u>
On behalf of the board		
		
Director		
		
Director	\$40,910,298	\$39,548,287





## liabilities

	March 31, 1968	March 31, 1967
<b>Current:</b>		
Due to bankers .....	\$ 583,256	\$ 1,254,605
Accounts payable — milk and cream producers .....	3,101,705	2,844,908
Other accounts payable and accrued charges .....	3,611,973	3,532,063
Income taxes payable .....	50,000	
Employees' tax deductions and realty taxes payable .....	322,034	231,545
Dividends payable April 1 .....	268,766	268,765
Principal instalments on debentures and other deferred debt due within one year .....	195,409	109,774
	<u>8,584,154</u>	<u>8,241,660</u>
<b>Mortgages, notes and deferred accounts payable</b> (see note 2) .....	323,198	345,957
<b>Debentures payable</b> (see note 3) .....	9,600,000	10,000,000
<b>Deferred income taxes</b> (see note 4) .....	3,118,127	2,625,377
<b>Minority interest in subsidiary companies</b> .....	11,000	107,684
<b>Capital</b> (see note 5):		
Class "A" shares without par value entitled to cumulative, preferential dividends of 60¢ per share per annum, payable quarterly, and after the Class "B" shares have received 60¢ per share in any one year to further participation rateably with Class "B" shares; entitled in liquidation to a priority of \$15 per share —		
Class "B" shares without par value —		
Authorized .....	Class "A" 1,000,000 shs.	Class "B" 500,000 shs.
Issued at March 31, 1968 .....	903,158 shs.	441,212 shs.
	7,341,317	7,341,238
Consolidated retained earnings (see note 6) .....	11,823,927	10,886,371
	<u>18,227,609</u>	<u>18,227,609</u>
The attached "Notes to the Consolidated Financial Statements" on the following pages should be read together with this statement.		<u>\$39,548,287</u>



# statement of consolidated income

Year ended March 31, 1968 (with comparative amounts for 1967)

SILVERWOOD DAIRIES, LIMITED and its subsidiary companies

	Year ended March 31, 1968	Per- centage	Year ended March 31, 1967	Per- centage	Increase or (decrease)
Sales .....	\$99,805,847	100.0%	\$90,790,724	100.0%	\$9,015,123
Less:					
Cost of materials and production expenses ....	\$68,088,757	68.2	61,497,557	67.7	6,591,200
Selling, administrative and general expenses (x) .....	25,578,670	25.6	23,598,040	26.0	1,980,630
Depreciation .....	2,250,869	2.3	2,048,584	2.3	202,285
	95,918,296	96.1	87,144,181	96.0	8,774,115
	3,887,551	3.9	3,646,543	4.0	241,008
Miscellaneous Revenue .....	170,267	.2	179,347	.2	(9,080)
Income from operations .....	4,057,818	4.1	3,825,890	4.2	231,928
Add:					
Investment Income .....	203,965	.2	179,235	.2	24,730
Profit on sale of fixed assets and invest- ments .....	303,716	.3	63,555	.1	240,161
Profit on redemption of debentures .....	22,228				22,228
	529,909	.5	242,790	.3	287,119
	4,587,727	4.6	4,068,680	4.5	519,047
Deduct interest on bonds and debentures .....	694,542	.7	552,219	.6	142,323
Income before taxes .....	3,893,185	3.9	3,516,461	3.9	376,724
Income taxes (see note 4) .....	1,857,000	1.9	1,785,858	2.0	71,142
Consolidated net income before minority in- terest .....	2,036,185	2.0	1,730,603	1.9	305,582
Minority interest in income or (losses) of sub- sidiary companies (net) .....	12,859		(449)		13,308
Consolidated net income for the year (see note 1) .....	\$ 2,023,326	2.0%	\$ 1,731,052	1.9%	\$ 292,274

(x) Remuneration to directors and senior officers of the company was as follows: 1968, \$208,158; 1967, \$209,050.

The attached "Notes to the Consolidated Financial Statements" on the following pages should be read together with this statement.





## statement of consolidated retained earnings

Year ended March 31, 1968 (with comparative amounts for 1967)

SILVERWOOD DAIRIES, LIMITED and its subsidiary companies

	Year ended March 31, 1968	Year ended March 31, 1967
Balance at beginning of year .....	\$10,886,371	\$10,275,904
Add consolidated net income for the year (see note 1) .....	2,023,326	1,731,052
	12,909,697	12,006,956
Deduct:		
Dividends declared on:		
Class "A" — 80¢ per share (1968 and 1967) .....	722,527	717,602
Class "B" — 80¢ per share (1968 and 1967) .....	352,968	352,968
Adjustment to minority interest for a prior year .....	10,275	
Unamortized discount and other expenses incurred on bonds redeemed .....		50,015
	1,085,770	1,120,585
Balance at end of year .....		\$10,886,371

### Auditors' Report

To the Shareholders of  
Silverwood Dairies, Limited.

We have examined the consolidated balance sheet of Silverwood Dairies, Limited and its subsidiaries as at March 31, 1968 and the statements of consolidated income, retained earnings and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at March 31, 1968, the results of their operations and the source and application of their funds for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada.  
May 15, 1968.

CLARKSON, GORDON & CO.,  
Chartered Accountants.



# notes to the consolidated financial statements *March 31, 1968*

SILVERWOOD DAIRIES, LIMITED and its subsidiary companies

## 1. PRINCIPLES OF CONSOLIDATION

The accompanying consolidated balance sheet as at March 31, 1968 and as at March 31, 1967 includes the assets and liabilities of United Dairies Limited and its subsidiaries together with appropriate provision for the interest of minority shareholders. The attached comparative statement of consolidated income for the year ended March 31, 1968 and March 31, 1967 includes the operating results of United Dairies Limited and its subsidiaries for the years ended on those dates.

The business of Uplands Dairy Shops was carried on directly by Silverwood Dairies, Limited to October 1, 1967. On that date, Uplands Dairy Shops (1967) Limited, a newly incorporated and wholly-owned subsidiary company, acquired the business and assets from Silverwood Dairies, Limited and carried on operations from October 1, 1967 to March 31, 1968. The accounts of this company have been included in the accompanying consolidated financial statements.

## 2. MORTGAGES, NOTES AND DEFERRED ACCOUNTS PAYABLE

Details of this amount are as follows:

(a) issued by Silverwood Dairies, Limited:	
5½% mortgage, repayable in annual instalments of \$15,400 .....	\$ 30,800
7% note, repayable \$45,000 in 1968-69, \$45,000 in 1969-70 and the balance in 1970-71 .....	102,333
	<u>133,133</u>
(b) issued by subsidiary companies:	
First mortgages payable .....	158,836
Equipment contracts payable (secured) .....	23,838
Deferred accounts payable (subordinated security) .....	100,000
Notes payable .....	32,800
	<u>315,474</u>
Total .....	448,607
Less amounts due within one year .....	125,409
	<u>\$323,198</u>

## 3. DEBENTURES PAYABLE

6½% sinking fund debentures Series A, due July 5, 1986 (sinking fund payment of \$400,000 per annum beginning July 5, 1968):

Original authorization July 5, 1966 .....	\$10,000,000
Outstanding as at March 31, 1968 .....	\$ 9,670,000
Less amount due on or before July 5, 1968 (included in current liabilities) .....	70,000
	<u>\$ 9,600,000</u>

## 4. DEFERRED INCOME TAXES

The income taxes actually payable for the year ended March 31, 1968 have been estimated at \$1,453,250. The difference of \$403,750 between this and the taxes charged to income results from claiming capital cost allowances for tax purposes in excess of depreciation recorded in the accounts of the companies.

This difference is applicable to those future periods in which the amounts claimed for tax purposes may be less than the depreciation recorded in the accounts and is accordingly included in the item "Deferred income taxes" in the attached consolidated balance sheet. This item also included similar reductions aggregating \$2,625,377 in respect of prior years.

## 5. CAPITAL STOCK

Changes in issued shares during the year ended March 31, 1968 were as follows:

	Class "A"	Class "B"	Book value
Issued March 31, 1967 .....	903,153 shares	441,212 shares	\$7,341,238
Add issued during year as consideration for the purchase of shares of United Dairies Limited .....	5		79
Issued March 31, 1968 .....	<u>903,158 shares</u>	<u>441,212 shares</u>	<u>\$7,341,317</u>

In addition to the capital stock issued at March 31, 1968, 34 additional Class "A" shares were reserved for issue under the offer to purchase shares of United Dairies Limited.





## 6. RESTRICTIONS ON PAYMENT OF DIVIDENDS

Under the provisions of the Trust Indenture securing the 6% sinking fund debentures, the company cannot declare or pay any dividends (other than stock dividends and dividends at the rate of 60¢ per share per annum on the outstanding Class "A" shares of the Company) when:

- (a) consolidated net current assets (as therein defined) of the company and its subsidiaries are less than, or would thereby be reduced to less than \$2,500,000 and
- (b) the consolidated retained earnings of the company and its subsidiaries will not be less than the lesser of 75% of the principal amount of all funded obligations of the company and its subsidiaries or \$7,500,000.

## 7. PENSION PLAN

Amounts paid in accordance with the terms of the companies' pension plans are charged against income as they become payable. Accordingly, the companies have no outstanding pension obligations as at March 31, 1968.

## 8. CONTINGENT LIABILITIES

As at March 31, 1968 Silverwood Dairies, Limited had committed itself for approximately \$1,050,000 in connection with affiliated companies and building construction now in progress.

# statement of consolidated source and application of funds

Year ended March 31, 1968 (with comparative amounts for 1967)

SILVERWOOD DAIRIES, LIMITED and its subsidiary companies

	1968	1967	Increase or (decrease)
Working capital, beginning of year	\$ 7,700,429	\$ 2,509,365	\$ 5,191,064
Sources of funds:			
1. Operations — Consisting of:			
Consolidated net income for the year	2,023,326	1,731,052	292,274
Amounts deducted in arriving at the above net income, not an outlay of funds:			
Depreciation and amortization	2,268,869	2,080,863	188,006
Deferred portion of income tax provision (see note 4)	403,750	775,419	(371,669)
	4,695,945	4,587,334	108,611
2. Issue of Class "A" shares (see note 5)	79	1,059	(980)
3. Issue of 6% sinking fund debentures (net)		9,642,180	(9,642,180)
4. Refund or (payment) of 5% special refundable tax	6,766	(170,705)	177,471
5. Adjustments (net) to deferred income taxes	89,000		89,000
6. Increase or (decrease) in minority interest in subsidiaries (net)	1,616	(211,257)	212,873
	4,793,406	13,848,611	(9,055,205)
Application of funds:			
1. Additions to the company's plant and equipment (net)	3,165,771	4,601,419	(1,435,648)
2. Dividends to shareholders	1,075,495	1,070,570	4,925
3. Purchase of route lists	110,503	476,626	(366,123)
4. Provision for retirement of bonds and debentures and reduction of other deferred liabilities	422,759	2,315,618	(1,892,859)
5. Increases in sundry assets (net)	35,757	193,314	(157,557)
	4,810,285	8,657,547	(3,847,262)
Increase or (decrease) in working capital	(16,879)	5,191,064	(5,207,943)
Working capital, end of year	\$ 7,683,550	\$ 7,700,429	\$ (16,879)



## ten year comparative summary

YEAR ENDED MARCH 31	1968	1967	1966	1965
SALES	\$99,805,847	\$90,790,724	\$61,956,835	\$53,512,422
PROFIT BEFORE INCOME TAXES	\$ 3,893,185	\$ 3,516,461	\$ 3,207,441	\$ 3,375,590
PERCENTAGE OF SALES	3.9%	3.9%	5.2%	6.3%
INCOME TAXES	\$ 1,857,000	\$ 1,785,858	\$ 1,645,526	\$ 1,792,000
NET PROFIT AFTER INCOME TAXES AND MINORITY INTEREST	\$ 2,023,326	\$ 1,731,052	\$ 1,559,984	\$ 1,583,590
PERCENTAGE ON SALES	2.0%	1.9%	2.5%	3.0%
NET PROFIT FOR EACH CLASS "A" and "B" SHARE	\$ 1.51	\$ 1.29	\$ 1.18	\$ 1.25
DIVIDENDS	\$ 1,075,495	\$ 1,070,570	\$ 991,413	\$ 882,228
PER CLASS "A" SHARE	.80	.80	.77½	.70
PER CLASS "B" SHARE	.80	.80	.77½	.70
EARNINGS RE-INVESTED IN THE BUSINESS	\$ 947,831	\$ 660,482	\$ 568,571	\$ 701,362
PERCENTAGE OF EARNINGS RE-INVESTED	46.8%	38.2%	36.7%	44.3%
CAPITAL INVESTED				
LONG TERM DEBT	\$ 9,600,000	\$10,000,000	\$ 1,037,500	\$ 1,124,500
SHAREHOLDERS' EQUITY	\$19,165,244	\$18,227,609	\$17,320,583	\$15,254,797
TOTAL	\$28,765,244	\$28,227,609	\$18,358,083	\$16,379,297
PERCENTAGE OF SHAREHOLDERS' EQUITY TO TOTAL INVESTMENT	66.6%	64.6%	94.3%	93.1%
SHAREHOLDERS' EQUITY PER SHARE	\$ 14.26	\$ 13.56	\$ 13.12	\$ 12.07
WORKING CAPITAL	\$ 7,683,550	\$ 7,700,429	\$ 2,509,365	\$ 4,880,322





1964	1963	1962	1961	1960	1959
\$51,914,455	\$48,017,229	\$45,642,340	\$43,405,231	\$43,141,870	\$42,291,091
\$ 3,301,919	\$ 2,913,910	\$ 2,803,628	\$ 2,559,031	\$ 2,752,175	\$ 2,495,272
6.4%	6.1%	6.1%	5.9%	6.4%	5.9%
\$ 1,758,000	\$ 1,513,000	\$ 1,470,000	\$ 1,324,000	\$ 1,416,000	\$ 1,225,000
\$ 1,543,919	\$ 1,400,910	\$ 1,333,628	\$ 1,235,031	\$ 1,336,175	\$ 1,270,272
3.0%	2.9%	2.9%	2.9%	3.1%	3%
\$ 1.23	\$ 1.14	\$ 1.12	\$ 1.11	\$ 1.21	\$ 1.17
\$ 840,326	\$ 735,464	\$ 695,704	\$ 666,891	\$ 659,509	\$ 647,298
.67½	.60	.60	.60	.60	.60
.67½	.60	.60	.60	.60	.60
\$ 703,593	\$ 665,446	\$ 637,924	\$ 568,140	\$ 676,666	\$ 622,974
45.6%	47.5%	47.8%	46%	50.6%	49%
\$ 1,563,000	\$ 1,839,500	\$ 2,549,000	\$ 2,811,000	\$ 2,942,000	\$ 3,276,500
\$14,415,951	\$13,473,744	\$12,388,885	\$10,975,516	\$10,268,552	\$ 9,336,440
\$15,978,951	\$15,313,244	\$14,937,885	\$13,786,516	\$13,210,552	\$12,612,940
90.2%	88%	82.9%	80%	77.7%	74%
\$ 11.52	\$ 10.94	\$ 10.37	\$ 9.82	\$ 9.31	\$ 8.62
\$ 3,993,444	\$ 3,963,821	\$ 3,614,882	\$ 3,218,244	\$ 2,935,337	\$ 3,200,067





# Silverwood's

## DAIRY PRODUCTS









# Silverwood features



## RESEARCH AND DEVELOPMENT

All production departments of our company have long had small local laboratories for checking raw materials and finished products and for controlling and improving the quality of all our dairy lines.

Now, for the first time, we are creating a Department of Research and Development in London, Ontario, which will be the centre of study for the entire Silverwood organization. This will augment the research done by national and international dairy groups, the results of which are available to us.

Through applied research, we intend to develop new food products for the domestic market and we hope that at least some of them will be appropriate for the export market as well. Both dairy and non-dairy products will be studied.

Mr. Alan G. Sargent, a B.A. graduate in Honours Chemistry, with considerable experience in food research, will head up this new department, working under the direction of Mr. H. T. Spettigue, Vice President, Production. At present working in temporary quarters, he will shortly move to the new laboratory being prepared for this work in London.

## CONVENIENCE STORES

With the advent of two-quart and three-quart containers and more recently the light-weight, easy to carry plastic "jug", a new type of convenience store, featuring dairy products, has evolved. It may be called a "dairy store" or "dairy bar", a "variety store" or by some a "jug store", but whatever its name it sells milk, ice cream and other dairy products in quantities, as well as a variety of other commonly used products.

Open early in the morning and late at night, seven days a week, it supplies a service to apartment dwellers and to residents of heavily populated areas who are away when the "milkman" calls. They pick up their milk when they drive home from work, or when they do their evening shopping.

Throughout Canada we serve many such stores, mostly independently operated. We also have some company-controlled outlets such as Uplands Dairy Shops in Ontario and Milky Way Stores in British Columbia where dairy products can receive even greater attention.

The photograph illustrates a dairy corner in one of our own stores where advertising and display make our products attractive to the average shopper. We believe this is a growing field for milk and ice cream sales, and a definite service to the consumer.







Silverwood's



### CENTRALIZED ACCOUNTING

With branches scattered across five Canadian provinces, we have always had to pay particular attention to uniformity of accounting practices.

Electronic data processing equipment, available in our larger branches, has simplified many accounting procedures, has speeded up operations, and given us a much better control of our accounts, of inventories, of costs.

Until recently many of these improvements have not been available to our smaller branches, but this is gradually being overcome by use of larger and more sophisticated E.D.P. machines and the centralization of accounting in certain strategically located branches.

The Head Office E.D.P. department, pictured here, takes care of certain accounting details for London, Sarnia, St. Thomas and Woodstock, as well as Head Office. Similar equipment at Kitchener assists Elmira, Stratford and Brantford. Windsor takes care of Chatham, Thamesville, Kingsville and Leamington. One Toronto department looks after four Toronto branches. Some day, a single, much advanced E.D.P. centre may meet the needs of our entire Canadian operations through a combination of E.D.P. and telecommunications.

### CENTRALIZED PROCESSING

If everyone would take the same kind of milk, cream or ice cream in the same sized container, production costs could be greatly reduced. What we refer to as "down time", or the time wasted in changing from one operation to another, adds to expense.

With today's demand for more and more products, packaged in just the right containers, many small dairies have found it impossible to meet the requirements economically. Many have closed their doors, have sold out, or operate as distribution centres. We are, today, processing and bottling for a number of small dairies who distribute Silverwood's milk and dairy products to their own customers, in their own area, on a franchise basis.

We have also closed down the processing sections of some of our branches who now receive their products from a Silverwood plant in another city where a larger volume of production makes processing more economical. In some branches one production line works all day on one type of container without any time loss.

One of the distributing centres is Stratford. The new branch storage and sales building pictured here receives milk from Kitchener and ice cream from London, in large refrigerated vans, and delivers in smaller refrigerated trucks to homes and stores within the assigned Stratford area. A number of similar operations are now carried on throughout the Silverwood organization. The new Brantford and Sarnia buildings will be of this type on a larger scale.







*Silverwood Dairies, Limited*

## SALES

Consolidated sales of Silverwood Dairies, Limited and subsidiary companies for the six months ended September 30, 1968, were \$60,000,542 compared with \$51,708,069 last year, an increase of 16%.

## EARNINGS

Consolidated profit after taxes amounted to \$1,131,670 compared with \$1,094,153, an increase of 3.4%. Net profit per share on our combined A and B shares for the first half of the current fiscal year was 84¢, compared with 81¢ for the same period last year. Net profit per dollar of sales was 1.88% compared with 2.12% last year. The decrease was caused by higher costs without corresponding increases in selling prices.

## CONSTRUCTION

LONDON — In 1966 it was decided to build a new ice cream manufacturing plant in London on Highway 401 in three phases.

Phase 1 was completed in January, 1967, and provided for the manufacture of bulk ice cream and packaged goods.

Phase 2 covers the transfer of the manufacture of ice cream novelties from our old ice cream plant in the City of London to our new plant, and will be commenced immediately in order to provide proper facilities for the rapidly increasing volume of sales.

Phase 3 of the program is receiving further study.

CALGARY — The facilities of the plant in Calgary are being expanded, and will provide operating efficiencies.

## STORES

The consolidated statement incorporates sales and profits of Silverwood Dairies, Limited and United Dairies Limited for the six months and of Mac's Milk Limited and Kwik Shops Limited from the respective dates of acquisition. Uplands Dairy Shops (1967) Limited has been merged with Mac's Milk Limited and the latter company is expanding its store operations in several large Ontario centres. In view of the costs incurred in this expansion program, it is not expected that the full effect of the store profits will become apparent until next year.

London, Ontario

November 6, 1968

President

## AR21



The "Bronze Oscar-of-Industry" for the best annual report in the Food-Grocery Products classification (sales under \$300,000,000) presented by the Financial World of New York City was awarded to Silverwood Dairies, Limited, for the second successive year, and this time in a higher category. Leslie R. Gray, Vice President, Finance, is shown (left) accepting the "Oscar" from Dr. Joseph H. Taggart, Chairman of the Board of Judges for the Financial World competition.

## Other Annual Report Awards

Financial World

Third Place in 1961, 1962, 1965

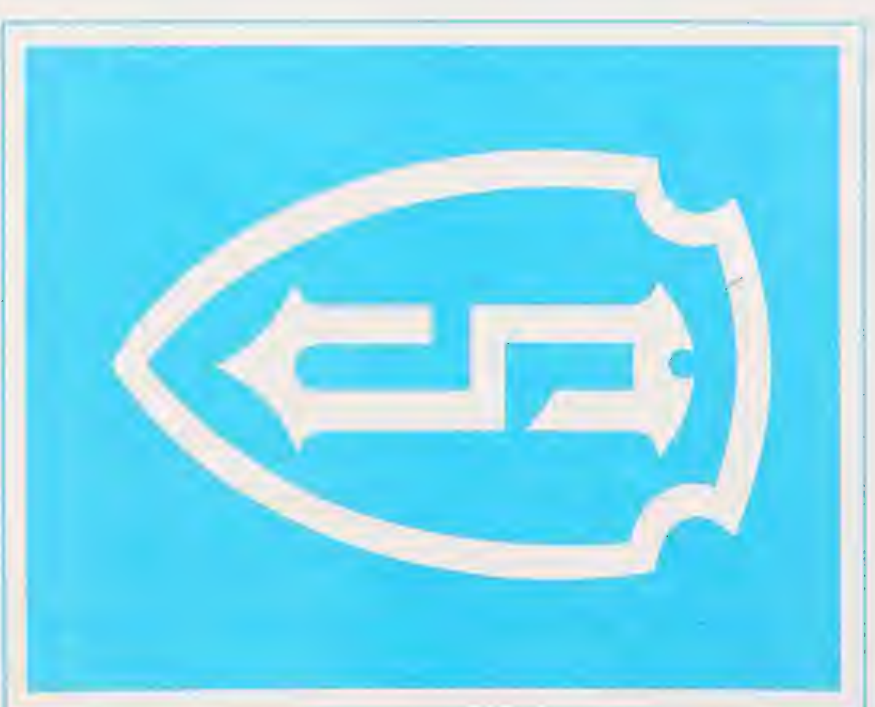
Second Place in 1966

Financial Post

First Place in 1963, 1965 and 1966

Third Place in 1964

Second Place in 1967



## INTERIM REPORT

to the shareholders of

*Silverwood Dairies, Limited*

for the six months

ended September 30, 1968



# Silverwood Dairies, Limited and its Subsidiary companies

## INTERIM STATEMENT OF CONSOLIDATED INCOME (Not Audited)

SIX MONTHS ENDED SEPTEMBER 30, 1968  
(with comparative amounts for 1967)

	Six months ended September 30, 1968	Six months ended September 30, 1967
Sales	\$60,000,542	\$51,708,069
Less:		
Cost of material and production expense	41,356,255	35,158,186
Selling, administrative and general expense	14,970,011	13,056,883
Depreciation	1,195,904	1,144,091
	57,522,990	49,359,160
Miscellaneous revenue and investment income	2,477,552	2,348,909
Profit on sale of sundry fixed assets and Investments	165,171	182,574
	2,642,723	2,531,483
Deduct interest on debentures	320,579	340,249
Net income before taxes	2,329,320	2,215,319
Taxes on income	1,189,380	1,119,466
Consolidated net income before minority interest	1,139,940	1,095,853
Minority interest in income of subsidiary companies (net)	8,270	13,000
Consolidated net income for period	\$ 1,131,670	\$ 1,094,153

## INTERIM STATEMENT OF CONSOLIDATED WORKING CAPITAL (Not Audited)

SIX MONTHS ENDED SEPTEMBER 30, 1968  
(with comparative amounts for 1967)

	Six months ended September 30, 1968	Six months ended September 30, 1967
Funds provided		
From operations —		
Consolidated Net income for the six months	\$ 1,131,670	\$ 1,094,153
Depreciation, amortization and other charges	1,204,904	1,153,091
Deferred Income Tax (see note)	340,000	227,928
	2,677,474	2,475,172
From issue of Class "A" shares	46,259	79
From refund of special 5% refundable tax	32,689	11,740
From increase in minority interest	—	1,000
	2,756,422	2,488,000
Funds expended:		
On addition to the company's plant and equipment (net including acquisitions)	4,260,768	3,502,003
To provide for dividends to shareholders	537,750	346,773
On the purchase of route lists	703,974	2,369
To provide for debt retirement	400,000	400,000
On decrease or (increase) in deferred notes and mortgages payable	(149,821)	16,625
On increase in sundry assets	101,130	(3,514)
	5,853,801	2,664,566
Increase (Decrease) in working capital	(3,097,379)	(176,206)
Working capital March 31	7,683,550	7,700,429
Working capital September 30	\$ 4,586,171	\$ 7,524,223

Note: The amount of deferred income tax shown for the six months ended September 30, 1967 has been adjusted to reflect, on a prorata basis, the income taxes actually deferred for the year ended March 31, 1968.

\*The 1968 figure includes \$1,800,000 of store equipment acquired through the purchase of majority interests in Mac's Milk Limited and Kwik Shops Limited

AR21

# RICHARDSON SECURITIES OF CANADA

STOCKS - BONDS  
COMMODITIES

RESEARCH DEPARTMENT

JAMES A. RICHARDSON

GEORGE T. RICHARDSON

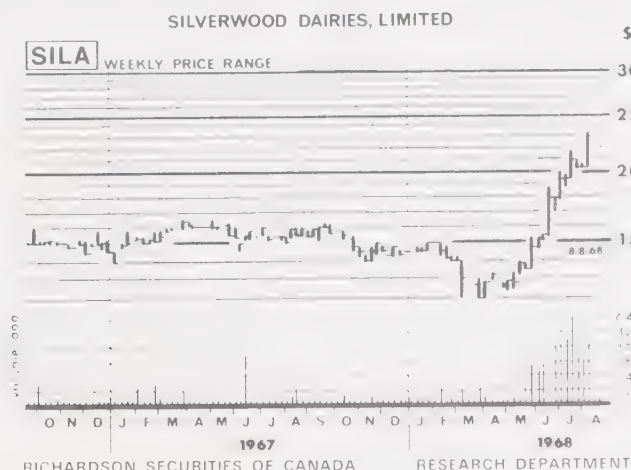
SIL

## SILVERWOOD DAIRIES, LIMITED

Price Range 1968		Current Price	Earnings Per Share		Price/Earnings Ratio	Indicated Dividend	Yield
High	Low		1968*	1969 (E)			
\$23.25	\$12.00	\$22.00	\$1.29	\$1.50	14.7**	\$0.80	3.64%

\* Excluding gain on sale of assets of 22¢.

\*\* Based on fiscal 1969 estimated earnings



- Silverwood's, Canada's largest dairy, has established itself as a major factor in the convenience store field. Concurrently, profit margins in dairy operations appear to be stabilizing.
- The store operation is a completely autonomous division operated by experienced convenience store management.
- 1968 is a base year to consolidate the entry into retail outlets. Beginning in 1969 an aggressive expansion programme will be undertaken in the Ontario market involving up to 50 new stores per year. Longer term expansion possibilities exist in Western Canada and other markets.
- In this year of consolidation total reported EPS are not likely to increase greatly over the \$1.51 reported in the fiscal year ended March 31, 1968. While 22¢ resulted from gain on sale of assets in fiscal 1968, the contribution of operating profits to total EPS will likely be higher in fiscal 1969. We recommend purchase of Silverwood "A" for participation in Silverwood's expansion into this high growth segment of food retailing.

AFFILIATE OF *James Richardson & Sons, Limited* ESTABLISHED 1857



## SALES ANALYSIS

As a result of mergers and acquisitions over the past 10 years, Silverwood's has become the largest dairy operation in Canada. Milk products account for approximately 73% of sales, ice cream for 17%, and other products such as fruit drinks, butter, and cottage cheese, the balance. Ontario is the Company's main market with 75% of sales, Manitoba and Saskatchewan contribute 7% while 18% is derived from the operations of United Dairies in Alberta and B.C.

About 50% of Silverwood's sales are still delivered to the home in spite of the switch from home delivery to store purchase. To help diversify the home delivery product line and increase volume, instant coffee and more recently bread, have been introduced on the milk route. With the growing trend to customer service in food distribution, the home delivery market should stabilize at 40% of sales over the next few years. Home delivery prices are set after allowance for the additional costs involved. The balance of sales are distributed through the Company's retail outlets, outside chain and independent stores, and institutional customers.

## CONVENIENCE STORES

Presently, 127 stores in the Mac's chain and 45 stores in the Uplands chain are being consolidated into one operation under the Mac's name. Kenneth McGowen, a founder of Mac's will manage the completely autonomous convenience store division.

Background. The Company acquired its first retail outlets in 1962 by purchasing a minority interest in Mac's Milk Ltd., a Toronto convenience store chain. Additional outlets were secured in 1966 with the purchase of Findlay Kemp Dairies of Toronto which included the Uplands jug milk stores. Upland Dairy Shops (1967) Ltd. was incorporated in 1967 to operate Silverwood's 45 company-owned stores. In July the Company announced it had taken a majority interest in the 127 store Mac's chain. A majority interest is also held in a chain of seven Kwik Shop stores in Winnipeg while four Milky Way stores are owned in Vancouver.

The Concept. Mac's stores are strategically located in high population areas and open 7 A.M. to 11 P.M. seven days a week to provide food and other household items with maximum convenience. The typical store ranges in size from 1200 - 1400 square feet and carries up to 2000 items. Dairy products and bakery products account for 25% and 17% of sales respectively. Other basic products are cigarettes, soft drinks, snack foods, and drug items. Bread, coffee, floor wax, and soft drinks are privately labelled with the Mac's name. A convenience operation charges a higher mark-up than a full-line supermarket. This factor combined with products selected for their rapid turnover should allow a higher profit margin than the conventional food outlet.

About 30 of the original Mac's stores are operated by franchisees who are supplied at cost plus a handling charge. The remaining stores are company-owned as will be the case with new stores. The Company leases the property and purchases the fixtures and equipment. The store manager who is responsible for every day operation, including personnel, receives a basic salary plus a percentage of gross sales.

Competition. The main competitor in Southern Ontario is the Becker's chain of convenience stores. Silverwood's, with 13 dairies in Ontario has been licensed to market milk in six of the 9 Ontario Milk Marketing Board areas while Becker's has only one milk plant and is presently restricted to the area running from Hamilton to Oshawa.

New Stores. 1968 is necessarily a year of consolidating the existing convenience store operations. In 1967, Mac's Milk opened 50 new stores and Silverwood's 45 company-owned stores were incorporated under Upland's Dairy Shops (1967) Ltd.

1969 will signal a new round of expansion in the Ontario market. The objective is 50 new stores a year which appears realistic considering the population growth and Silverwood's ability to market milk in six of the nine Milk Marketing Board areas. The new stores will be in the 2000 square foot range and will allow an extended product line. Delicatessen items and party foods could offer considerable scope for expansion.

Geographical Expansion. The Company is experimenting in the Winnipeg and Vancouver markets with Kwik Shops and Milky Way stores respectively. Although the George Weston controlled Mini-Marts are established in both cities, there remains expansion potential for a well-managed operation.

In Alberta there is presently a relatively small volume of milk sold through retail outlets because of provincial government regulations prohibiting a price differential between home delivery and store purchases. However, if this restriction should be removed, the Company, with four dairies in Alberta would be in an excellent position to serve Calgary and Edmonton markets.

The Company is interested in the acquisition of small suppliers where the retail volume of a product would justify a purchase.

## SALES AND EARNINGS

Years Ended March 31 (millions of dollars)	<u>1968</u>	<u>1969 (Est.)</u>
Retail	5.0	27.0
Wholesale	94.8	93.0
Total	99.8	120.0

Normally first half results are higher than second half results because of ice cream sales in the summer months. The operating profit for the first half ending September 30, 1968 will likely be flat with last year's 80c. This can be attributed to below average ice cream sales resulting from cool spring weather and non-recurring costs from the Mac's - Uplands consolidation. Results of the second half should begin to reflect the store division and total EPS for fiscal 1969 should be roughly equivalent to the \$1.51 reported in fiscal 1968. More substantial earnings gains should appear in fiscal 1970 as expansion continues and new stores reach maturity.

## DAIRY OPERATIONS

The Canadian dairy industry is in a unique price squeeze with government bodies regulating the price paid to milk producers as well as the retail price to consumers. The Company's profit margin has declined from 3% in 1964 to 1.9% in 1968. Silverwood's does have economies of scale and should be able to reduce costs and improve efficiency. Indications are that profit margins will stabilize at present levels.



CAPITALIZATION AT  
MARCH 31, 1968

Long Term Debt	\$9,600,000
Class "A"	903,158
Class "B"	441,212

Class "A" shares are entitled to a preferential dividend of 60¢ per share and \$15 in the event of voluntary liquidation. After the Class "B" shares have received the equivalent dividend and/or, in the event of liquidation the equivalent \$15, both classes are equal in all respects. The Class "A" shares are non-voting unless in arrears while the Class "B" shares have one vote per share. The Silverwood family and employees control approximately 80% of the Class "B" shares.

AUGUST 1968

RESEARCH DEPARTMENT

AR21

SILVERWOOD DAIRIES LIMITEDSummary:

A new and aggressive management team is redirecting Silverwood's expansion efforts. Using the financial resources of Canada's largest dairy, the company is moving into the convenience store business, the fastest growing segment of the food retailing industry. With Mac's Milk Ltd. now in the fold, Silverwood's sales will accelerate immediately with earnings growth to follow soon. Earnings should increase 14% annually over the next few years. We project earnings in excess of \$1.75 per share for 1970. (Fiscal year ends March 31.)

At a current price of \$22, Silverwood Class 'A' shares have fully discounted this year's estimated earnings. However, we recommend that the stock be purchased - at these levels and particularly on weakness - by those investors seeking intermediate and long term capital gains.

Class 'A' Common Stock DataFiscal Year Ending March 31.

		<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>	<u>1965</u>
		\$	\$	\$	\$	\$
Price:	Current	22				
	High	24 7/8	16 1/2	19	16 3/8	15 1/2
	Low	12	14	14 1/2	15	14
E.P.S.		1.36(E)	1.51	1.29	1.18	1.25
P.E. Ratio:	Current	16.2				
	High	18.3	10.9	14.7	13.9	12.4
	Low	8.8	9.3	11.2	12.7	11.2





The Company:

Silverwood Dairies Limited, through mergers and acquisitions, has become Canada's largest dairy, with sales of \$100 million in the fiscal year ending March 31st, 1968. The company processes milk and related products, then distributes these, along with fruit juices, coffee and other products, in most of the larger communities in Ontario and the Western Provinces. About 50% of sales are made to wholesale and institutional accounts such as chain-stores, restaurants, hotels, schools and convenience stores. The remainder is sold by home delivery.

Dairy Industry Margins - Under Pressure:

Silverwoods, like most traditional dairies, has been faced with dwindling profit margins and a flattening sales curve for its dairy products.

One of the major factors contributing to these problems has been the steadily increasing cost of purchasing raw milk from the dairy farmers. Resistance from chain-stores and price-conscious housewives, prevented these price increases from being passed on to the buyer. In Silverwood's case, the balance sheet item "Cost of Material and Production Expenses" increased steadily from 64.9% of sales in 1960, to 68.2% in 1968. This occurred despite considerable capital expenditures to modernize processing equipment and centralize production. Further pressure on margins has resulted from:

- a decline in per capita consumption of milk;
- a swing in consumption from whole milk to lower-margined 2% milk;
- a larger percentage of milk sales to institutions and convenience stores.

As a result, income from operations has declined from 6.9% of sales in 1960 to 4.1% in 1968.

Lower Dairy Margins Result in New Activities:

Silverwood's management does not anticipate an eventual turn-around in dairy margins. Accordingly, they are taking three corrective steps to improve the company's long-term profitability:

- ① - a research department has been set up to develop new products for the market;
- ② - management has made a decision to avoid expansion of its dairy operations, except to replace inefficient production operations.



any kind of school  
at Boston  
on board of school boys

over of France <sup>23</sup> Deck Party (in <sup>10</sup> ~~London~~ <sup>London</sup> ~~London~~)

Mr. G. Lowman

also <sup>sup</sup> ~~sup~~ market, people

young Silverwood

③ realizing that the impetus for growth must come from other endeavours, Silverwoods will make substantial investments in the convenience store industry through their participation in Mac's Milk.

To assist in the pursuit of these aims, and to complement and broaden its existing management team, Silverwoods has gone outside the industry to fill four or five important management positions.

#### Convenience Stores:

Silverwoods has quickly established itself as a leading force in the convenience store industry. In June 1968, Silverwoods acquired, for an undisclosed price, a majority interest in Mac's Milk Ltd., and since then has been consolidating the 45 "Upland Dairy" stores already owned with Mac's 127 stores under the latter's name.

#### The Convenience Store Concept:

The convenience store, or jug milk store, although a relatively new form of food retailing, has exhibited remarkable growth. In Canada, over 600 stores are in operation today, compared to less than 150 just four years ago. Success has been based on the concept of:

- good store location;
- extended hours for business;
- speedy checkout service;
- low priced milk and bread.

Mac's Milk stores, which for the most part are located in heavily populated areas in Metropolitan Toronto, are open every day of the year from 9 a.m. to 11 p.m. They vary in size with the newer and larger stores averaging almost 2,000 sq. ft. Design and layout is standardized where possible with the cashier's counter at the front of the store and the refrigeration units at the rear. Milk and other dairy produce account for 25% of Mac's estimated \$30 million in sales. In addition, Mac's stores sell baked goods, dry groceries, frozen foods and non-food items. Up to 2,000 items may be stocked depending on the size of the store. The company's objective is to carry one national and one higher-margined private brand for major items.

Most Mac's stores are leased for ten years and carry an additional ten year option clause. All but thirty are company operated, although management states that further franchising of future stores can be expected. Their managers are paid a salary, plus an escalating bonus based on monthly sales. Stores normally have their heaviest traffic flow on weekends and after 7 p.m. on weekdays. For an established store, sales are estimated at \$180,000 per year on average, with normal growth in the range of 5% annually. Advertising costs are roughly 1% of sales.





### Convenience Store Expansion Plans:

In 1967, Mac's and Uplands together opened 68 new stores. Approximately 25 more have been added already this year. Management has yet to establish plans for annual rates of store openings, however, they agree that a target of at least 50 new openings per year is feasible. Marketing plans call first for the development and expansion of new stores in Ontario, and the completion of the Uplands change-over. At some later date however, convenience store operations in the Western Provinces will be expanded. Silverwoods has no plans to move into Quebec or Eastern Canada.

With thirteen dairies in Ontario, Silverwoods is licensed to sell milk in six of the nine zones established by the Ontario Milk Marketing Board. In comparison, the Becker Milk Co. Ltd. the largest convenience store company in Canada with over 200 stores, has only one dairy and thus is currently licensed to sell milk in only one zone.

Both companies compete in Zone 4 which encompasses the Oshawa-Toronto-Hamilton area. However, Mac's has opened stores in other zones where Silverwood processing plants already operate. In this respect, Mac's has a definite advantage over Beckers since the latter must first purchase, or construct, a dairy in each new zone before opening any new convenience stores.

Therefore, with its financial resources and flexibility to quickly move into new marketing areas, Mac's has the potential to significantly increase its penetration in the convenience store industry.

### Future Plans:

An added bit of glamour, not reflected in Silverwood's above expansion plan for Mac's, is management's interest and probable intention of integrating backwards at some future date. The convenience store outlets now provide Silverwoods with a solid base for further acquisitions, perhaps in the food processing and supply business. They fully intend to explore this area of expansion; however, any acquisitions will be at least a year or two away.

### Capital Expenditures:

Silverwoods is in an excellent position to finance its future growth. The completion of its London ice-cream plant and construction of a central plant in Vancouver will bring to an end Silverwood's major program of modernizing equipment and centralizing production plants. Thereafter, only minimal expenditures will be required to maintain the dairy operation.





Accordingly, a high percentage of Silverwood's future net cash retention can be directed towards the expansion of their convenience stores, or for further non-dairy acquisitions. With a cash flow of over \$4.6 million last year, Silverwoods, in our opinion, is capable of financing at least 100 new convenience stores per year.

#### Sales and Earnings Outlook Bright:

Consolidated Silverwood sales should exceed \$122 million for the fiscal year ending March 31st, 1969. However, this year's earnings growth will be only moderate due to a further weakening of dairy margins and the high non-recurring costs resulting from the consolidation of Uplands with Mac's.

In our opinion, consolidated operating earnings should improve from \$1.28 last year, to \$1.34 this year. Non-operating earnings of 2¢ to 6¢ should result in total earnings per share of \$1.36 to \$1.40 compared to \$1.51 last year.

For the following year, Mac's operations should start to contribute to earnings. Based on management's estimated profit margins of 1.2% on Mac's sales and 1.8% on Silverwood's, we look for a 30% increase in earnings to \$1.80 a share on sales of \$135-\$140 million. Earnings gains after 1970 could accelerate, should Mac's margins improve as expected and convenience store openings increase in number.

#### Technical Analysis:

A long term upside technical breakout occurred on expanded volume as Silverwood Dairies 'A' stock crossed \$19. A long term technical objective of about \$30 has now been set up. Supply of stock at resistance levels ahead is not heavy and the stock has support at the \$22-\$23 level and at \$18 1/2. The relative strength of the stock is positive.

#### Conclusion:

A more aggressive management team has broadened Silverwood's operating base to provide for rapid sales and earnings growth, both internally and by further diversification. At current levels, we recommend the purchase of Silverwood Dairies 'A' by investors interested in medium to long term capital gains.

( November, 1968.  
R.G.A.:mr )







## Research Department

SILVERWOOD DAIRIES LIMITEDSupplementForecast of Sales

Our forecast of sales is made on the basis of 50 store openings a year, with sales per new store averaging \$200,000 after two years.

	Sales -----		
	<u>Silverwood's</u>	<u>Mac's</u>	<u>Total</u> *
	\$ Mil.	\$ Mil.	\$ Mil.
1968 Actual	100	°	100
1969 Estimate	100	30	122
1970 Estimate	106	41	137
1973 Estimate	128	80	188

Forecast of Earnings

Over the past five years, Silverwood's net earnings have increased 30%, but an increasing number of shares outstanding has negated any improvement in earnings per share. The acquisition of Mac's Milk will definitely enhance future earnings prospects as indicated below. These projections have been made on the basis of management's profitability estimates which forecast after tax net profit margins of 1.8% on Silverwood sales and 1.2% on Mac's sales, with the latter increasing to 1.4% by 1973. On this basis, our projections indicate an average growth of over 14% per annum to 1973.

Earnings

	----- Operating -----			Capital	Reported
	<u>Silverwood's</u>	<u>Mac's</u>	<u>E.P.S.</u>	<u>Gains</u>	<u>E.P.S.</u>
	(\$000)	(\$000)			
1968 Actual	\$ 2,023	°	\$ 1.28	\$ 0.23	\$ 1.51
1969 Estimate	1,828	-	1.34	0.02	1.36
1970 Estimate	1,908	490	1.80	?	1.80
1973 Estimate	2,304	\$ 1,120	2.55	?	2.55

\* Assumes 100% ownership of Mac's.

° Prior to Mac's Milk acquisition.

November, 1968

R.G.A.:mr

514 842 2252





AR21

# CANADIAN BUSINESS SERVICE LIMITED

## INVESTMENT COUNSELLORS

GEORGE C. ARMSTRONG, B.A. SC.  
PRESIDENT

SUITE 1205 - 55 YORK STREET, TORONTO 1, ONTARIO  
CABLE: CANBUS TORONTO TELEPHONE: 366-8031

February 20, 1968

### SILVERWOOD DAIRIES, LIMITED

#### HIGHLIGHTS

1. Largest dairy organization in Ontario and Western Canada, with annual sales of about \$100 million.
2. Moderate but steady expansion policy has been followed. Annual sales were boosted by the acquisition in 1966 of United Dairies Limited of Alberta and B.C., and of Findlay Kemp Dairies of Toronto.
3. Profit margins were well maintained until fiscal 1966 but have been under pressure from rising costs since then.
4. Earnings are estimated at \$1.30 per share for fiscal 1968, little changed from \$1.29 of fiscal 1967.
5. Longer term outlook has been enhanced by the establishment of a powerful Milk Commission in Ontario which should favour the larger companies.
6. "A" stock at \$14 $\frac{1}{2}$  or 11.2 times earnings, and yielding 5.5% on the 80¢ dividend, is attractive for income and moderate growth. "B" stock at \$15 $\frac{3}{4}$  or 12.1 times earnings and yielding 5.1% is also attractive as a potential takeover target.

#### The Company:

Silverwood Dairies, Limited is the largest dairy organization in Canada, with branches in Ontario and Western Canada. Activities include the wholesale and retail distribution of milk, cream, eggs, fruit juices and other products, and the manufacture and distribution of butter, ice-cream, condensed milk, powdered milk, and other dairy products. For the year ended March 31, 1966, the percentage of each sales group to total sales was as follows:

Milk, cottage cheese, yogurt and fruit drinks	67.5%
Ice cream, mixes, and frozen confections	18.6
Butter	9.0
Eggs and poultry	2.0
Condensed and powdered milks	1.4
Sundry products	<u>1.5</u>
	100.0%

At March 31, 1967, 33 branches and depots were operated in Ontario and 20 in Western Canada. A fleet of about 1,925 trucks is owned and operated. Silverwood employs about 4,000 persons.

Silverwood Dairies, Limited:

---continued---



Capital Expenditures and Financing:

Silverwood's policy has been one of moderate though steady expansion. A large part of its growth has been achieved through acquisition, followed by consolidation and modernization of the acquired facilities.

In the past decade, fixed assets at cost have increased by \$23 million. The major additions during this period were:

Fiscal Year

- 1960 - New plant in eastern Toronto and acquisition of dairies in London and Toronto.
- 1961 - New London branch and head office; acquisition of Paulger's Blantyre Dairy Limited (East Toronto).
- 1962 - Mason's Dairy of St. Catharines acquired.
- 1963 - New distributing depot at Sudbury.
- 1964 - New processing plant at Windsor; acquisitions of La Salle Dairy at Windsor, Dye Dairies Ltd., Brockville and Jeffery's Dairy at St. Catharines.
- 1965 - Kingsville Dairy, Kingsville and Campbell's Dairy, Peterborough purchased.
- 1966 - United Dairies Limited and its subsidiaries, Central Creameries Limited and North-western Creamery Limited operating established dairies in Alberta and B.C.; and Findlay Kemp Dairies Limited and its subsidiary, Uplands Dairy Shops Limited, a large Toronto dairy, acquired.
- 1967 - A large ice cream plant (to be built in three stages at a total cost of \$3.5 million) on a site near London, Ontario went into operation in December 1966. Also new distributing depot in Stratford; renovation of the Kitchener plant, extension of Head Office facilities; acquisition of: two small dairies and an ice cream plant in Vancouver; dairies in Chatham, Orillia and London, Ontario; and an ice cream plant in Orillia, Ontario.

Currently under construction are new depots at Brantford and Sarnia, Ontario; (the latter to replace a unit which burned down) while extensive alterations are being made to the main Peterborough plant. Capital expenditures and sources of funds for recent years are summarized in the following table:

Years Ended	Uses of Funds								Sources of Funds			
	Gross Fixed Assets*	Net Additions to*		Route Lists	Div. Paid	Acquis. Sh. of Subsidi.	Pfd. Shs. Net Red. Other		Cash Flow	Issue of Class "A" Shs.	Incr.(Decr.) in L.T. Debt	Incr. (Decr.) in Work, Cap.
Mar. 31	\$000	Amount	% of *	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
1967	35,919	4,601	12.8	476	1,071	-	211	364	4,587	1	7,326	5,191
1966	26,138	3,506	13.4	767	991	2,536	+	167	3,256	825	1,517	(2,371)
1965	25,176	1,639	6.5	-	882	-	-	118	3,710	24	(208)	887
1964	23,703	2,116	8.9	-	840	-	-	143	3,160	180	(212)	30
1963	22,494	1,563	6.9	-	735	-	-	43	3,004	155	(468)	349
1962	21,550	1,617	7.5	595	696	-	-	68	2,860	667	(155)	397
1961	19,827	2,236	11.3	-	667	-	-	(143)	3,034	136	(128)	283
1960	18,409	1,922	10.4	-	660	-	-	62	2,509	152	(284)	(265)

\* - Land, buildings, machinery and equipment, merchandising equipment, delivery equipment, - substantially at cost, at beginning of year.

Until 1966, there had been no outside financing since 1952. The increase of 310,839 Class "A" shares outstanding since 1956 has been due to (1) 93,713 shares sold under stock purchase plans for employees; (2) 50,000 shares sold to an outside corporation in 1962 (the purchaser was not named), (3) 114,718 shares

issued on conversion of debentures and (4) 52,408 shares issued in connection with the acquisition of United Dairies.

In July 1966, a \$10 million 6 5/8% 20-year sinking fund debenture issue was sold to replenish working capital and to refund previous debt.

Capitalization:	At March 31, 1967	Amount -000-	% of Total
Accumulated Tax Reductions		\$ 2,625	8.4%
Minority Interest		108	0.3
Mortgages, Notes, and Deferred Accts. Pay <sup>1</sup>		346	1.1
6 5/8 S.F. Debentures, due 1986		10,000	31.9
903,153 Class "A" shares, n.p.v.)			
441,212 Class "B" shares, n.p.v.)		7,341	23.4
Earned Surplus		<u>10,886</u>	<u>34.8</u>
		\$31,306	100.0%

- Notes: (1) The Class "A" shares are non-voting except when in arrears for two years in which case the Class "A" can elect three directors. The "A" stock is preferential as to 60¢ of dividends plus arrears if any and after non-cumulative dividends of 60¢ have been paid on the "B" both classes participate equally in any further distribution.
- (2) Silverwood Employee Holdings Ltd. owned 184,482 and Silverwood Investment Ltd. held 166,539 of the "B" shares according to the Initial Summary of Insider Trading Reports published by the O.S.C.

Sales and Earnings: From 1957 to 1965, sales increased steadily but only moderately. The major jump in the past two years reflects the acquisition in 1966 of the United Dairies operations in Alberta and British Columbia and of the Findlay Kemp operations in Toronto.

The profit margins of these companies were not as favourable as those of Silverwood and this factor, together with a steady rise in costs, has resulted in a decline in profit margins.

The situation has been aggravated by the rising popularity of the 3 quart milk container which provides a considerably lower margin. In addition, a substantial volume of milk sales has been diverted in recent years to the wholesale market, reflecting the prolific growth of jug milk stores in urban areas across the country. In fiscal 1966, for example, only 57.8% of Silverwood's milk sales were delivered to the home. Diversification into other products has produced varying results. Orange juice distribution via the milk truck has been most successful when supplies from Florida are plentiful. Other fruit juices are sold, as well as eggs, butter, and cheese.

Years Ended			Cost								Deprn.		Pretax Income	% of Sales
	Mar. 31	Sales	Change	Material and Production	% of Sales	Selling, Admin. & Gen'l.	% of Sales	Oper. Profit	% of Sales	Other Inc.	and Amort.	Int.		
		\$000	%	\$000	%	\$000	%	\$000	%	\$000	\$000	\$000	\$000	%
1967	90,791	+	46.5	61,498	67.7	23,598	26.0	5,695	6.3	422	2,049	552	3,516	3.9
1966	61,957	+	15.8	41,346	66.8	16,050	25.9	4,561	7.4	269	1,563	60	3,207	5.2
1965	53,512	+	3.1	35,241	65.9	13,511	25.2	4,620	8.6	227	1,547	64	3,376	6.3
1964	51,914	+	8.1	34,060	65.6	13,395	25.8	4,460	8.6	242	1,316	84	3,302	6.4
1963	48,017	+	5.2	31,103	64.8	12,895	26.9	4,020	8.4	251	1,260	96	2,914	6.1
1962	45,642	+	5.2	29,753	65.2	11,965	26.2	3,925	8.6	188	1,181	128	2,804	6.1
1961	43,405	+	0.6	28,249	65.1	11,455	26.4	3,701	8.5	178	1,184	136	2,559	5.9
1960	43,142	+	2.0	28,001	64.9	11,328	26.3	3,812	8.8	183	1,099	144	2,752	6.4
1959	42,291	+	5.0	27,761	65.6	10,977	26.0	3,553	8.4	178	1,079	157	2,495	5.9
1958	40,277	+	8.7	26,418	65.6	10,420	25.9	3,438	8.5	198	1,025	176	2,436	6.1

Silverwood Dairies, Limited:

---continued---



The above factors explain why relatively little growth has been achieved in operating earnings in the past 10 years. In addition, the growth in net profit has been curtailed by higher provisions for depreciation and interest charges on the new funded debt.

Statistical Summary:

Years Ended				Per A & B Share Data							Yearly Mean	
	Total Assets	Sales	Net Profit	Shares o/s	Equity	Ret. on Equity	Cash Flow	Net Earn.	Div.	Price Range A	P/E Ratio	Mean Yield
Mar. 31	\$mill.	\$mill.	\$mill.	(000)	\$	%	\$	\$	\$	\$		%
1967	39.5	90.8	1.7	1,344	13.56	9.6	3.41	1.29	0.80	19 - 14½	13.0	4.8
1966	31.3	62.0	1.6	1,320	13.12	9.0	2.47	1.18	0.77½	16½ - 15	13.3	4.9
1965	22.0	53.5	1.6	1,263	12.07	10.0	2.82	1.25	0.70	15½ - 15	11.8	4.7
1964	22.2	51.9	1.5	1,252	11.52	10.7	2.40	1.23	0.67½	14½ - 12¼	10.9	5.0
1963	20.6	48.0	1.4	1,232	10.94	10.4	2.31	1.14	0.60	14 - 11¼	11.1	4.8
1962	20.0	45.6	1.3	1,194	10.37	10.8	2.32	1.12	0.60	14 - 10¾	11.1	4.8
1961	28.9	43.4	1.2	1,117	9.82	11.3	2.40	1.11	0.60	11¼ - 10	9.6	5.6
1960	27.1	43.1	1.3	1,103	9.31	13.0	2.47	1.21	0.60	12 - 10½	9.3	5.3
1959	25.8	42.3	1.3	1,083	8.62	13.6	2.24	1.17	0.60	12 - 10½	9.6	5.3
1958	24.4	40.3	1.3	1,072	8.02	14.8	2.23	1.19	0.60	11 - 9½	8.6	5.9
1957	23.2	37.1	1.2	1,059	7.40	14.9	2.01	1.10	0.60	13½ - 10¼	10.8	5.1

A - "A" shares for previous calendar year.

Note: The company uses the more conservative "deferred credit" method of accounting.

Price Range 1967-68 to date: "A" - \$16½ - \$14  
"B" - \$16 - \$13½

Directors:

E.G. Silverwood, G.M. Carlyle, J.H. Gillies, L.R. Gray, R.G. Ivey, Q.C., F.W.P. Jones, N.E. Kaye, A.E. Lawrence, Sr., E.B. Nelles, H.T. Spettique, J. Allyn Taylor, London, Ontario; J.A. Caulder, T.L. Davies, E.A. Paulger, Toronto. Head Office: 75 Bathurst Street, London, Ontario.

The shares are listed on the Toronto Stock Exchange.  
Transfer Agent: Canada Trust Co., Toronto, Ontario, Calgary, Alberta and Vancouver, B. C.

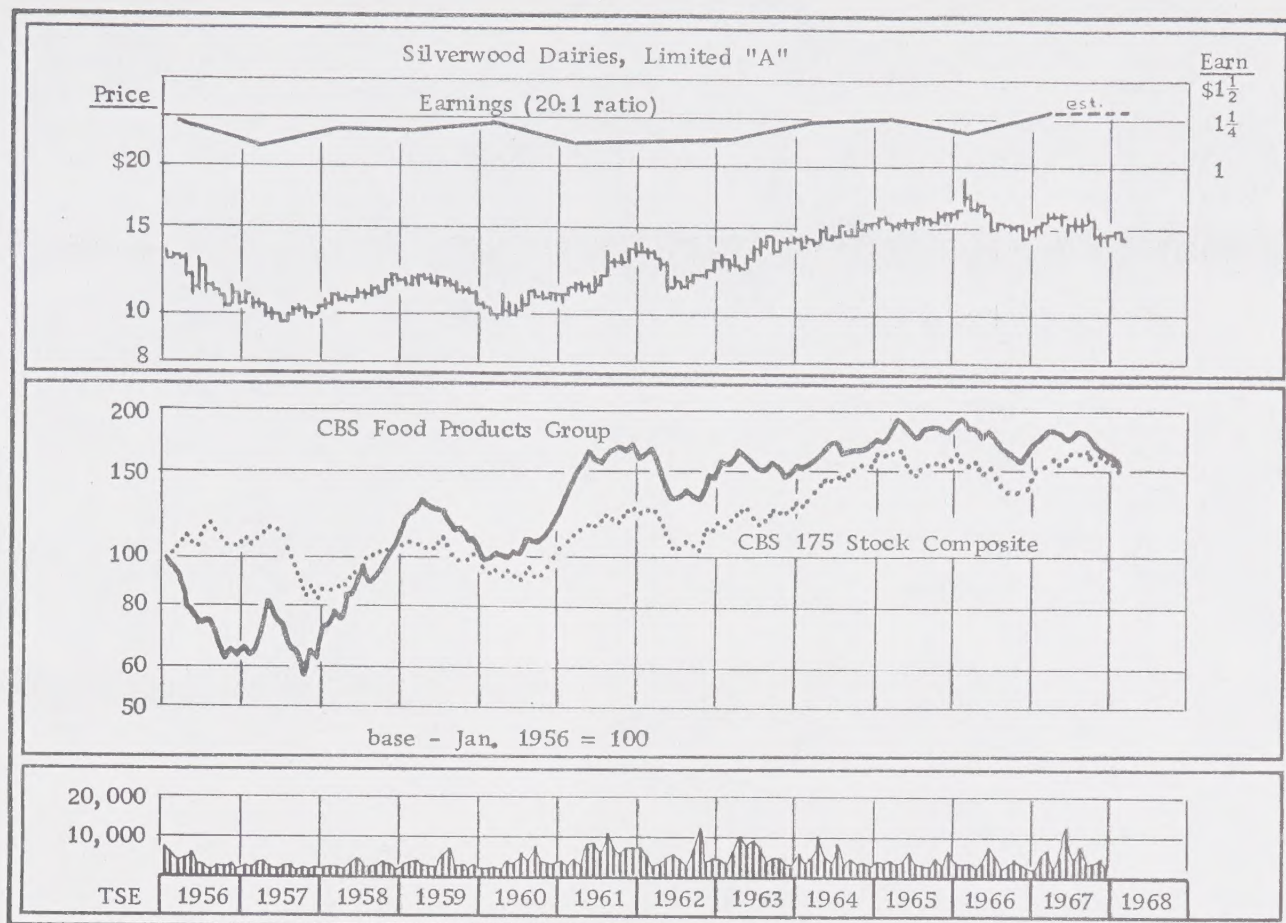
Market Pattern:

Silverwood Dairies "A" stock topped off at 13 in 1946 and then drifted back to reach a low of 8½ in 1949. The shares recovered to 11 in 1950 and then traded in the 9 to 12 range for five years before moving up sharply on high volume to briefly touch a new high of 15 in 1955. The stock subsequently drifted lower on declining volume to bottom out at 9 in mid-1957. A gradual recovery on light volume topped off at 12 in the early part of 1959, and this was followed by a retreat to 10 early in 1960. In the recovery, the stock reached 14 in late 1961 and early 1962. In the market break of 1962, the stock sold off sharply to 11¼. The shares then began a long advance, culminating in a two and a half point rise in January of 1966 to establish the all-time high of 19. In the reaction, the shares have so far drifted back to about 14.

Outlook:

Sales for the six months ended September 30, 1967 rose a further 10% but pretax profit margin dropped to 4.3% from 4.8% in the corresponding period of the previous year. Thus earnings





were only fractionally higher at 81¢ versus 80¢ in the previous year. Earnings for the full year are expected to be close to last year's \$1.29 per share.

The establishment in 1966 of the Milk Commission of Ontario, the province where about two thirds of Silverwood's revenue is derived, has made it difficult to adjust selling prices to offset rising costs. Nevertheless, the Commission has complete power over all phases of the dairy industry in the province, including registration and licensing, inspection, regulation of prices, grades, labels and containers, authority to set up marketing pools and authority to investigate and arbitrate disputes. We, therefore, believe that the longer term effects of the new government control and regulation will be quite favourable to Silverwood, which is a long established and respected factor in the industry. Many smaller, inefficient producers of dairy products will probably be forced to leave the market while uniform prices and packaging and rigid inspection should serve to strengthen the position of the larger companies. The acquisition of Findlay Kemp was the first made in Ontario under the new legislation, and further expansion of this nature is likely to occur.

Working capital is sufficient to facilitate further acquisitions and product diversification. Instant coffee, instant chocolate, and soft margarine have been added to the product line, and the new ice cream plant at London, Ontario, should benefit ice cream sales, on which profit margins are relatively high.

Nevertheless, the dairy business would appear to offer only limited opportunities for growth with profits strictly regulated and consumption rising only in line with population increase.

#### Dividends:

annual rate.

Payment of a 20¢ quarterly dividend October 1, 1965, on the Class "A" and "B" shares, established an 80¢



Comment:

The non-voting "A" shares at  $\$14\frac{1}{2}$  or 11.2 times estimated fiscal 1968 earnings of \$1.30 per share, yield 5.5% on the 80¢ dividend. The voting "B" shares at  $\$15\frac{3}{4}$  sell 12.1 times estimated earnings to yield 5.1%. The "A" stock enjoys cumulative preferred dividends of 60¢ annually and is entitled to \$15 a share on liquidation. The shares are attractive for income and moderate growth, while the "B" shares also have some speculative interest as a takeover candidate.

PUBLISHED AND COPYRIGHTED BY CANADIAN BUSINESS SERVICE LIMITED.

Silverwood Dairies Limited: